



GTE Service Corporation

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April 8, 1999

RECEIVED

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Ms. Magalie R. Salas
Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, DC 20554

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

**Ex Parte: Universal Service – CC Docket No. 96-45 and Forward-Looking Mechanism
for Non-Rural LECs – CC Docket No. 97-160**

Dear Ms. Salas,

On Wednesday, April 7, 1999, Dennis Weller and I, representing GTE, met with Chuck Keller and Rich Cameron of the Accounting Policy Division of the Common Carrier Bureau to discuss the Federal/State Joint Board's Second Recommended Decision in the proceeding indicated above. We discussed conditions that should be imposed on carriers for use of federal universal service funds, deaveraging of support amounts, usage to be included in basic service and administration of a federal fund. In addition, we discussed two critical actions the Commission must take in order to fully implement Section 254 of the 1996 Act: replacing implicit support in interstate access rates with explicit support and establishing a mechanism which will provide sufficient universal service support to high cost areas.

To the extent that the Commission decides to determine the amount of a high cost fund based on a forward-looking cost model, it must first determine whether that model produces reasonable results before selecting the parameters to be used to size the fund. Although the Commission has selected the HCPM platform, it has yet to determine a significant number of "input" issues. These include not only outside plant, switching, interoffice and expense inputs, but also fundamental model assumptions, such as the manner in which customer locations are determined, engineering assumptions, and use of various technologies. GTE encourages the Commission to correct errors in the model, however, the staff continues to update and modify the platform itself. While GTE has been able to run the HCPM model with "default" input values, it cannot determine if the model produces plausible outputs until the Commission issues a final order on the input values and releases a "final" version of the platform. Therefore, it is vital that the Commission first ask for additional public comment on the completed model before using it to determine the amount of high cost support to be made available in a federal universal service fund.

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GTE recognizes that an additional comment and reply round on the cost model could preclude its use in calculating a high cost fund for non-rural companies by July 1, 1999. However, the Commission need not delay implementation of a new high cost fund for this reason alone. As suggested by other parties, including a number of "rural states", the Commission could, on July 1, 1999 initiate an "interim" mechanism by modifying the existing high cost plan in order to provide additional funding for non-rural carriers serving states with high cost areas. (See Comments on the Joint Board's Second Recommended Decision of Arkansas, Kansas, Maine, Montana, New Hampshire, New Mexico, Vermont and West Virginia State Regulatory Agencies, December 22, 1998. This could be accomplished by modifying funding percentages and/or eligibility requirements in the current plan.

Pursuant to Section 1.1206(a)(1) of the Commission's rules, and original and one copy of this letter are being submitted to the Office of the Secretary. Please associate this notification with the record in the proceeding indicated above.

If you have any questions regarding this matter, please call me at (202) 463-5293.

Sincerely,

W. Scott Randolph
Director - Regulatory Matters

cc: Rich Cameron
Craig Brown
Chuck Keller

Federal Universal Service Fund

GTE

7 April 1999

- Issues for Discussion
 - Conditions for use of funds
 - Deaveraging of support
 - Usage to be included in basic service
 - Administration of the fund

Federal Universal Service Fund

- Joint Board recommends conditions on receipt of funds
 - To ensure that funds are used in accordance with Section 254
- GTE agrees that some conditions are needed
 - Customers are heterogeneous
 - Firms have incentives to cherry-pick
 - Nonlinear pricing provides means to target customers
 - Problem of ensuring that everyone is served

Federal Universal Service Fund

- Similar problem with definition of service
 - How to specify usage
 - How to ensure that package represents “viable choice for consumers”
- These issues can only be addressed by relating them to affordability
 - Should have to provide affordable service as condition for receiving funds
 - Doesn’t matter what’s in the package if customer can’t afford to buy it

Federal Universal Service Fund

- GTE recommends that, as condition for receiving funds, an Eltel should:
 - Provide service that includes capabilities in FCC's basic service definition
 - Offer at least one such package at price no higher than "affordable" price set by state commission
 - Commission has already delegated determination of affordability to the states

Federal Universal Service Fund

- Proposal provides maximum carrier flexibility consistent with meeting 254 objectives
 - Carriers can add additional features to packages
 - Can add optional features, or other packages at higher prices
- Any package that includes defined capabilities should be supported
 - Even if it is more expensive -- as long as one package is “affordable”
 - Important to prevent USF from creating bias against new services

Federal Universal Service Fund

- How to define amount of usage in basic package?
 - Differences among wireless, wireline carriers
 - Many wireline packages today don't have minimum usage allowance
- GTE proposal:
 - Specify usage level
 - Greater than zero, less than current wireline average
 - Require that customer be able to buy service and usage for no more than “affordable” rate set by state
 - Proposal allows any combination of flat rates and usage rates, so long as package with usage is “affordable”

Federal Universal Service Fund

- Support should be targeted geographically within study areas
 - This is necessary to send efficient price signals for investment and entry
 - Also necessary to ensure that support is used for service in high cost areas, as Joint Board recommends
- The fact that Joint Board calculates amount of support at study area level does not imply that distribution of support must be averaged

Federal Universal Service Fund

- Administration of the Fund
 - Concerns raised by parties over possible mismatch between carrier's obligation and carriers revenues
 - Caused by use of revenue shares from prior period to determine contributions
- GTE proposal:
 - Administer fund on “real-time” basis
 - Fund administrator declares contribution percentage
 - Each carrier bills and remits to administrator
 - Administrator changes percentage as needed to match fund receipts with claims on fund

Federal Universal Service Fund

- Administration of the Fund
 - Carriers must have ability to recover their contributions
 - GTE could accept requirement that billing not exceed carrier obligation

Federal Universal Service Fund

- Other Important Issues
 - Replacing implicit support in interstate access rates with explicit support
 - Use of model
 - What to do in July 1999
 - What to do for the long term
 - **Market-based determination of USF by competitive bidding**